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## The Decline In Employment Dynamism Over The Last Three Decades

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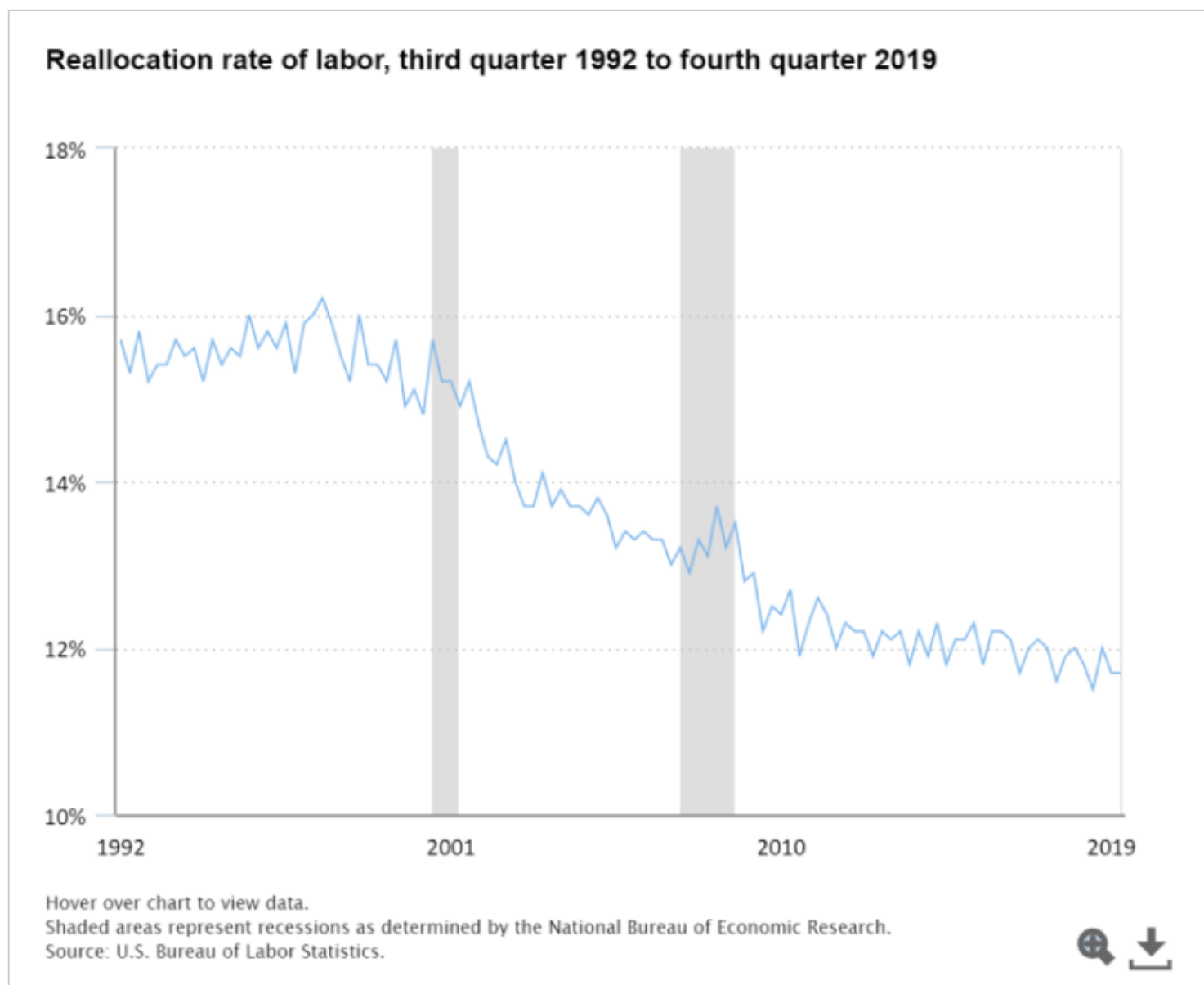
Business dynamism refers to the continuous process of firm entry, growth, contraction, and exit, and the simultaneous creation and destruction of jobs. A healthy economy is marked by low barriers to entry for new firms and a labor market that permits workers to move easily between jobs.

Historically, the United States has had high levels of business dynamism. New firms burst onto the market, offering new goods and services to consumers, attracting talented workers to develop and improve their novel products, and changing the overall economic landscape. Today, the picture is different.

In this Spotlight, we observe the pre-pandemic decline of employment dynamism—a concept referring to the levels of jobs created and destroyed—across industries, states, firm sizes, and establishment ages in the United States.

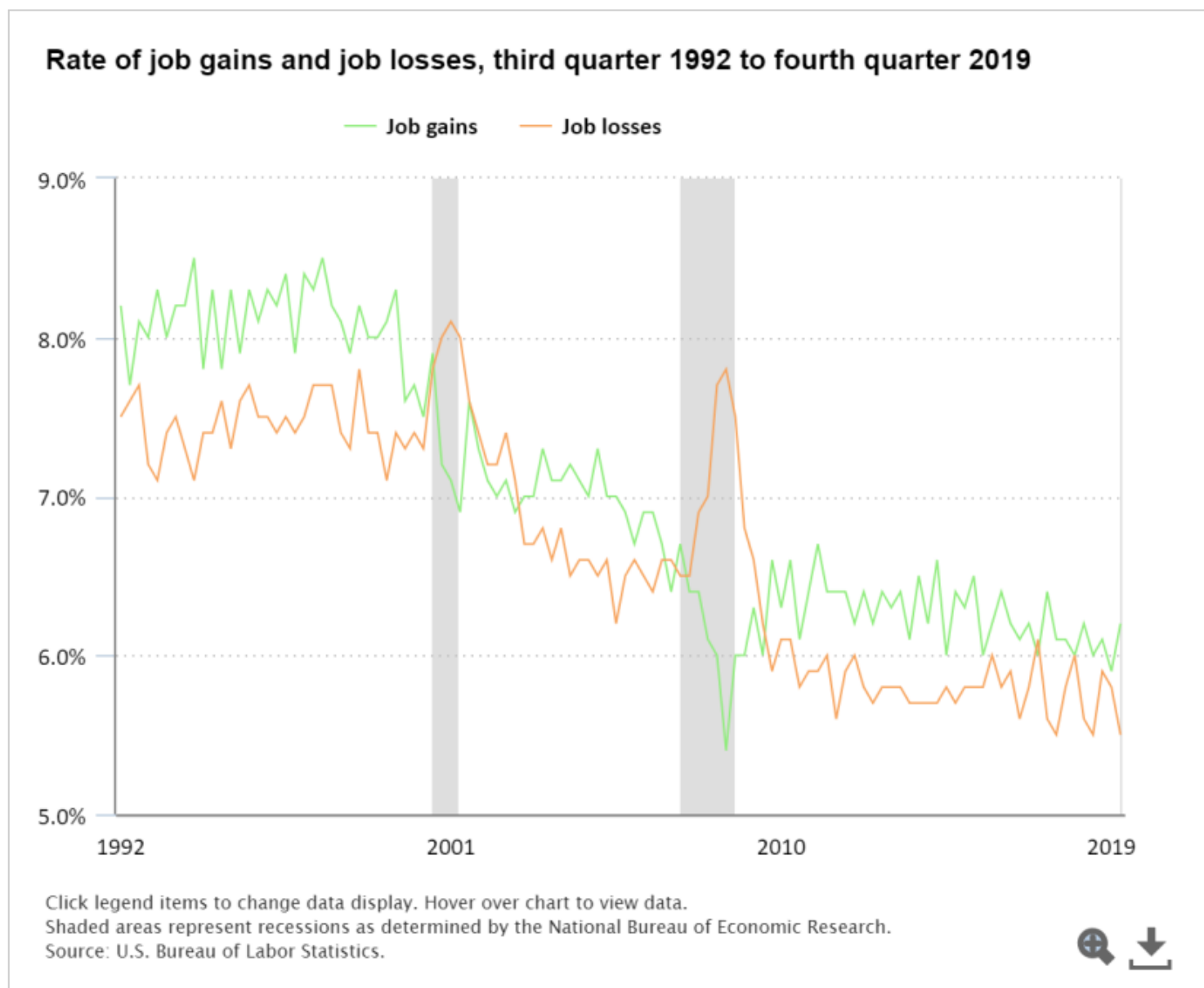
## Employment dynamism has fallen in the last twenty years

One way to measure employment dynamism is through the reallocation rate of labor—the sum of gross job gains and gross job losses divided by total employment. In the third quarter of 1992—the first quarter in which business employment statistics were released—the reallocation rate stood at 15.7 percent. In the fourth quarter of 2019, the reallocation rate was 11.7 percent. This is equivalent to a 25-percent decrease in labor reallocation over this time. From this topline view, we can observe a “stair-step” pattern in the reallocation rate. That is, the rate remains mostly stable from quarter to quarter until a recession begins, causing it to fall. In this graph, we can observe the reallocation rate experiencing a permanent decrease following both the 2001 and 2008 recessions.



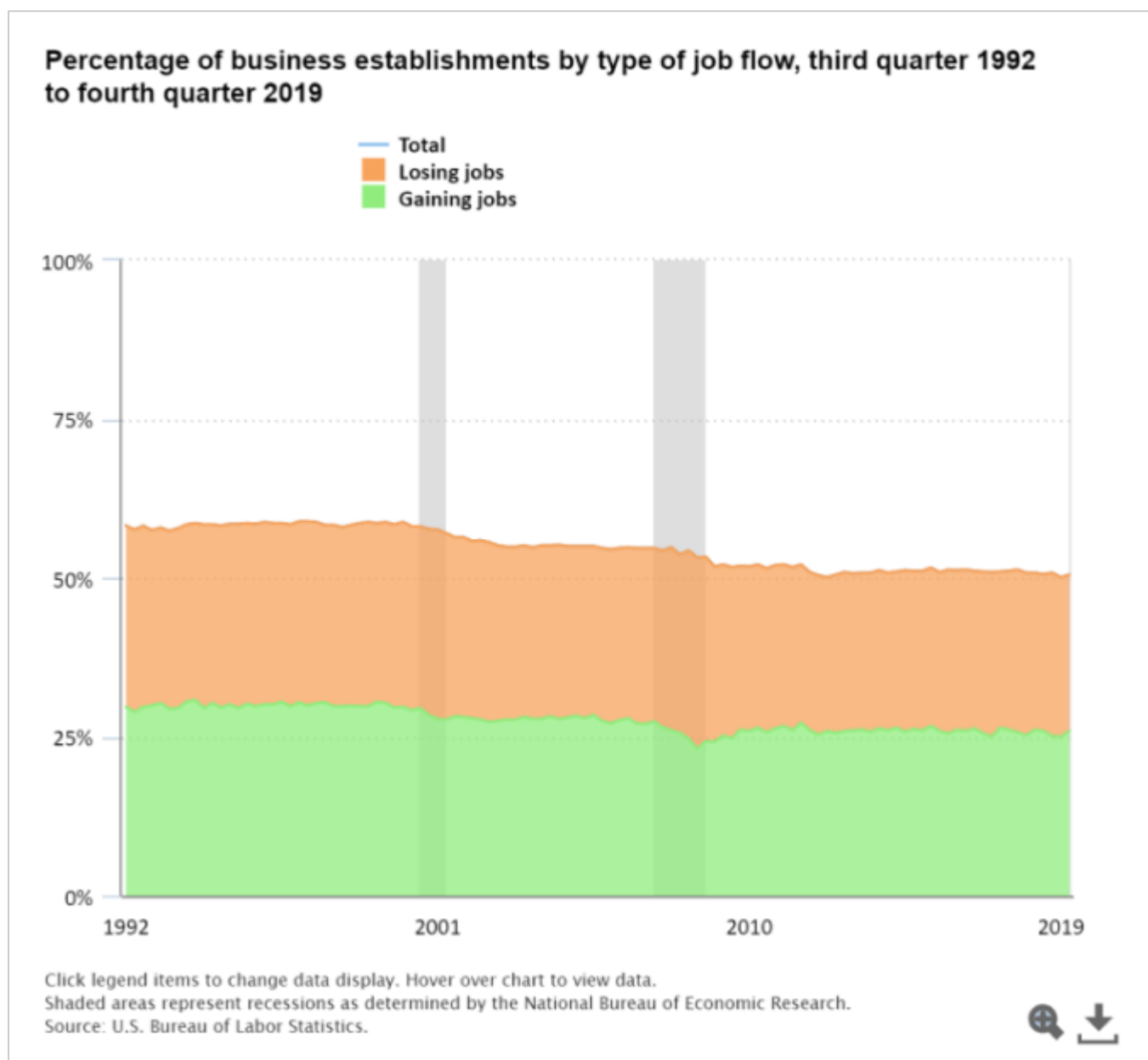
## Drops in job creation and job destruction contributed to the decline employment dynamism

The decline in employment dynamism can be broken into two components: gross job gains and gross job losses as a percentage of total employment. Both the job creation and job destruction statistics exhibit the same stair-step pattern as the reallocation rate, meaning they drop following periods of recession, and hold steady in subsequent quarters.



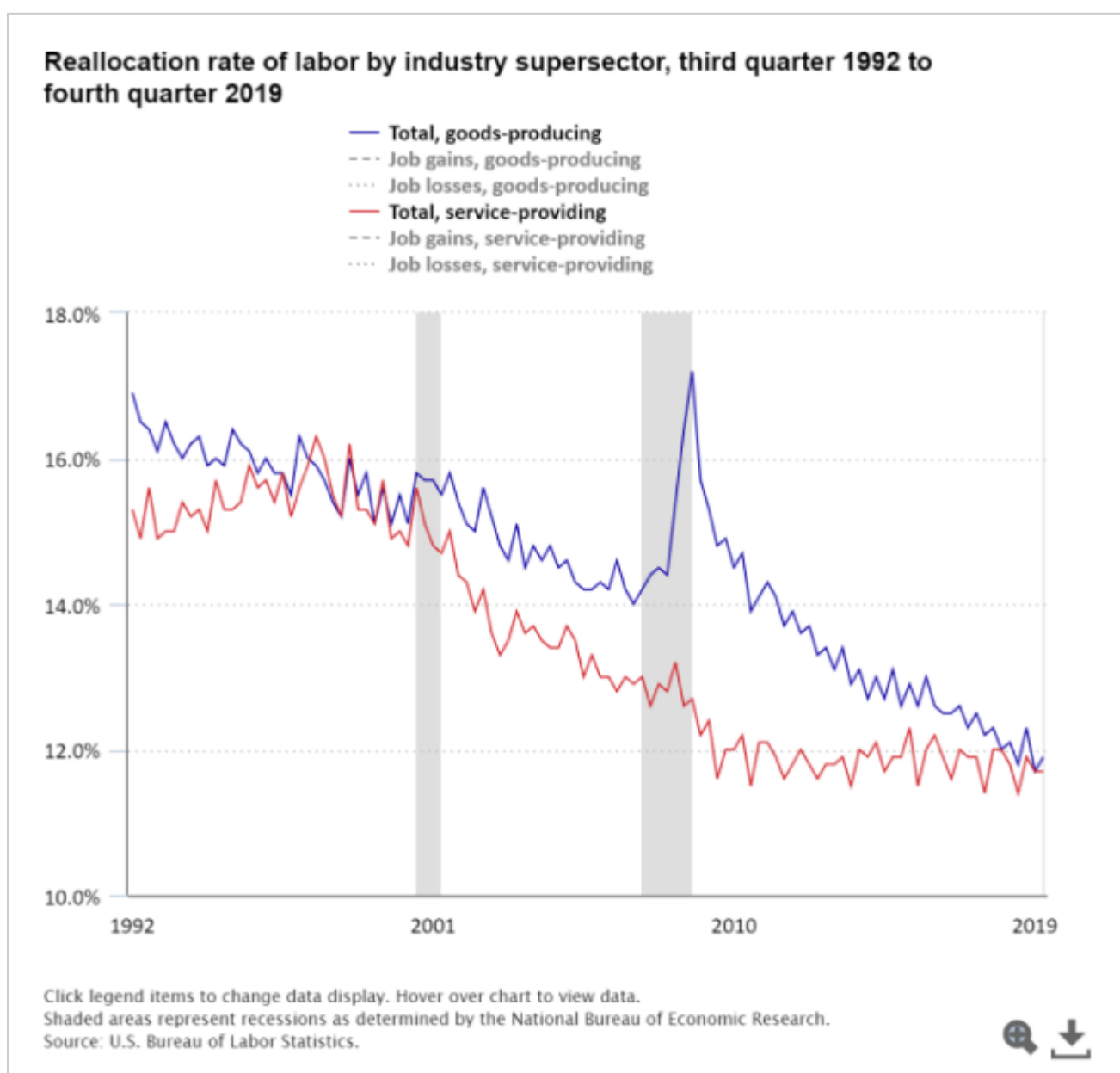
## The percentage of establishments gaining or losing jobs each quarter has fallen

In the second quarter of 1992, 58.2 percent of establishments either gained or lost jobs. At the end of 2019, that rate fell to 50.5 percent, a 13-percent decrease. Like the changes in the labor reallocation rate, the decline in the percentage of establishments gaining or losing jobs follows a stair-step downward pattern. Interestingly, the total percentage of establishments gaining or losing jobs is *higher* than the total reallocation rate. In the fourth quarter of 2019, just over 50 percent of establishments either gained or lost jobs while the reallocation rate stood at a considerably lower 11.7 percent. This difference reflects the high rates of labor turnover at young and small establishments, which consist of a higher proportion of total establishments than of total employment.



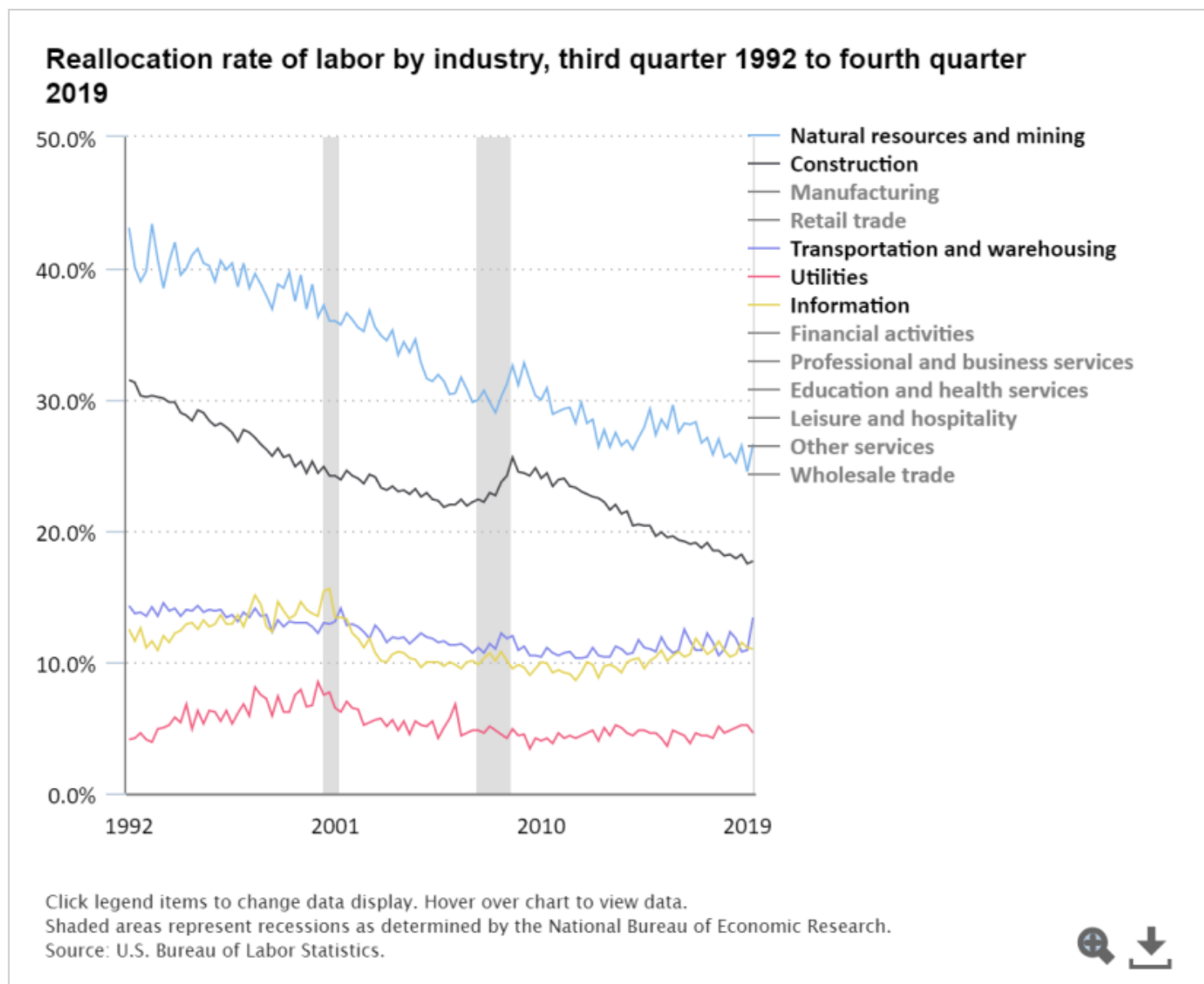
## Both goods-producing and service-providing industries experienced declining dynamism

Across the goods-producing and service-providing sectors, employment dynamism has fallen. Service-providing industries experienced a steeper decline in the reallocation rate following the 2001 recession, but the reallocation rate stood near 12 percent for both groups at the end of 2019. Goods-producing industries experienced a slower and more consistent decline in labor reallocation than service-providing industries. Despite the rising share of employment in the service-providing sector, these industries exhibited steeper declines in labor turnover than goods-producing industries. The rate of job gains and job losses for the service-providing industries began to fall just prior to the 2001 recession, and continued to fall until just after the Great Recession, after which they leveled out. For goods-producing industries, the rates of job gains and job losses trended downward from 1993 until the end of 2019.



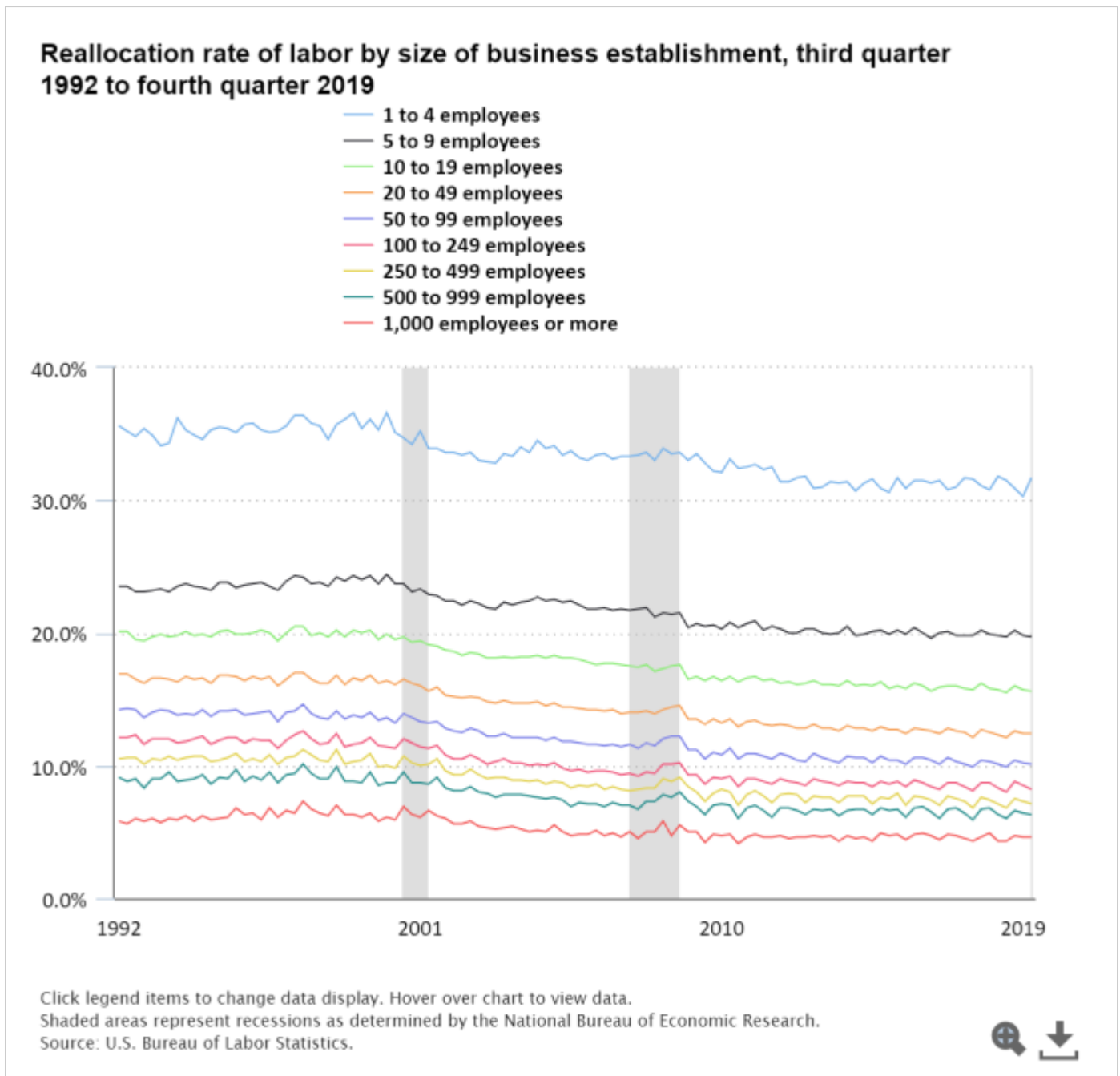
## Most industries experienced a fall in their reallocation rate

Almost every major industry experienced a fall in the reallocation rate between 1992 and the end of 2019. The industry with the highest level of labor reallocation in 1992, natural resources and mining, experienced one of the largest drops, falling from nearly 45 percent to approximately 30 percent in 2019. Similarly, construction had a labor reallocation rate that began above 30 percent in 1992 and fell to almost 20 percent in 2019. Despite almost every major industry experiencing a decline since 1992, two industries have managed to increase their labor reallocation rate since 2008: Information and transportation and warehousing. The rise of tech firms and internet delivery services possibly fueled this change. The only industry to experience an increase in its reallocation rate from 1992 to 2019, utilities, made large gains in the 1990s, but most of its gains were lost between the 2001 recession and the end of 2019. However, small changes in total job flows in the utilities sector may appear large as a percent due to the low level of employment in the industry.



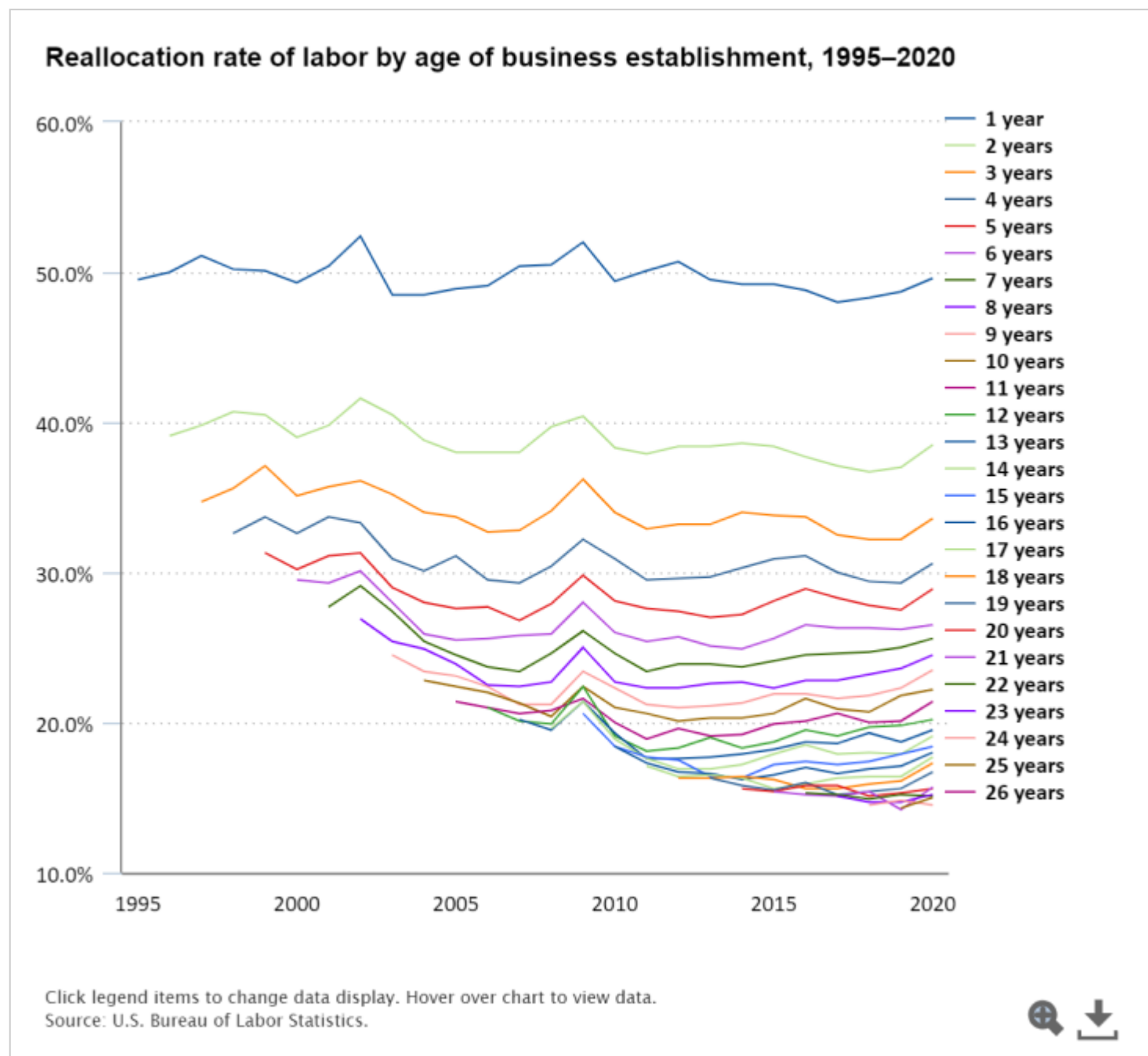
## The labor reallocation rate has fallen across firm size groups

All firm size groups experienced an absolute fall in employment dynamism from the third quarter of 1992 to the fourth quarter 2019. Differences in the reallocation rate across size groups has been largely unaffected by the decline in dynamism. Reallocation rate levels declined slightly from 1992 to the end of 2019.



## Younger establishments have higher rates of labor turnover than older establishments

Over this time, the reallocation rate falls with establishment age, but stays constant within each age group. Young establishments have higher rates of labor turnover than older ones. For example, establishments that are 1 year old have reallocation rates around 50 percent from year to year, while establishments that are 20 years or older have reallocation rates below 16 percent.

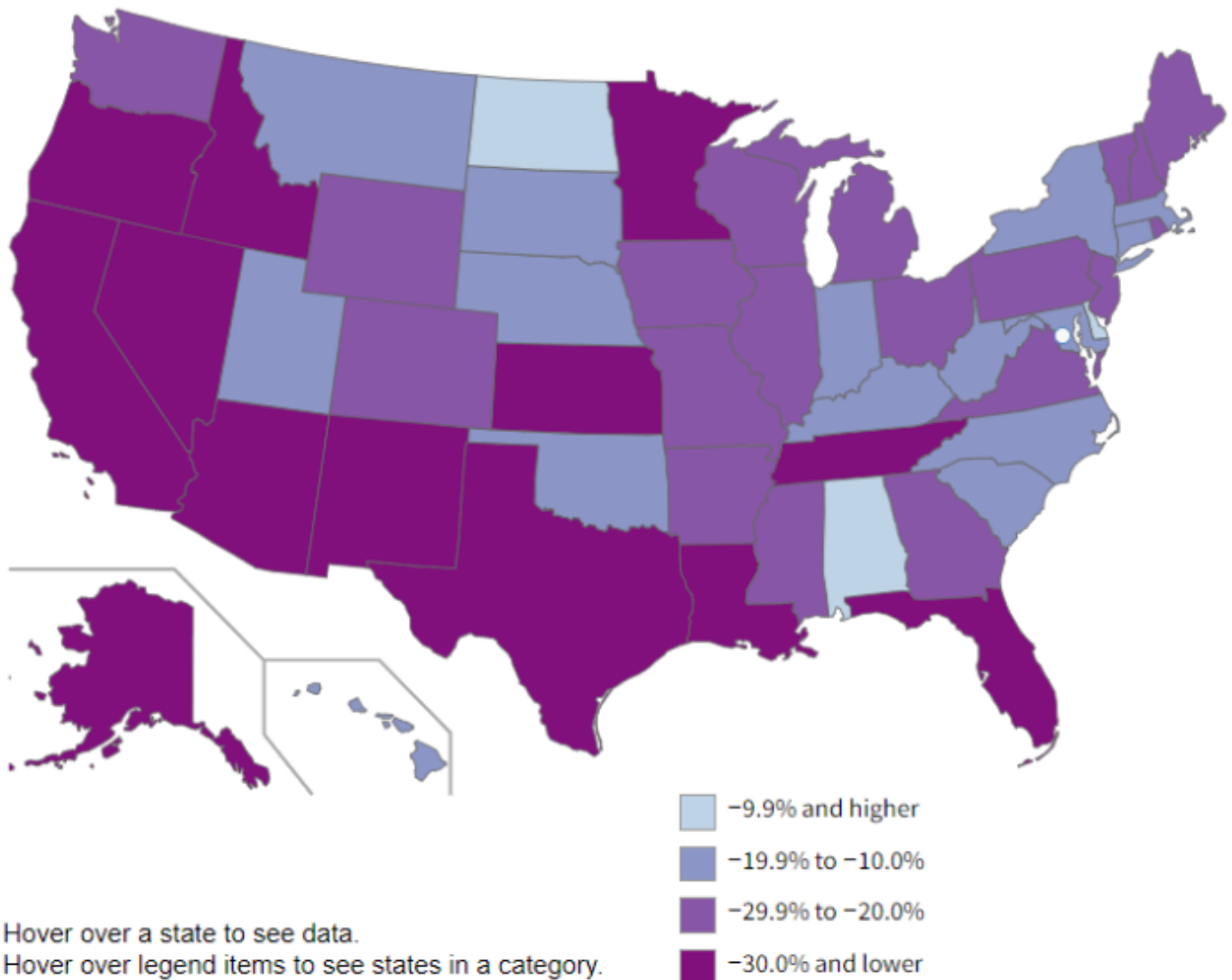




## Employment dynamism has fallen across states

Every state and territory of the United States has experienced declines in the labor reallocation rate from the third quarter of 1992 to the fourth quarter of 2019. Many states—particularly across the Southwest—experienced declines greater than 30 percent. Only two states experienced a drop of less than 10 percent: Alabama and North Dakota.

**Percentage change in reallocation rate by state, third quarter 1992 to fourth quarter 2019**



## For more information

This Spotlight on Statistics was written by Anthony L. Colavito, an economist in the Office of Employment and Unemployment Statistics, U.S. Bureau of Labor Statistics. For questions about this Spotlight, please email [colavito.anthony@bls.gov](mailto:colavito.anthony@bls.gov).

In the third quarter of 1992, the Bureau of Labor Statistics began releasing statistics on [business employment dynamics](#). These data are generated from the Quarterly Census of Employment and Wages program. These quarterly data consist of gross job gains and gross job losses at the national, industry, state, size, and age levels. These data help paint a picture of the state of dynamism in the labor market. Since the data series began, there has been a decline in employment dynamism throughout the economy.

This Spotlight examined the reallocation rate of labor—the sum of gross job gains and gross job losses divided by total employment—in various aspects of the economy to measure pre-pandemic dynamism.